

Message Text

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SUBJECT: BENDIX NEGOTIATIONS FOR PARTICIPATION IN SOVIET SPARK
PLUG PRODUCTION

REF: A) STATE 212741, B) MOSCOW 13587

1. SUMMARY: BENDIX SENIOR VICE PRESIDENT JEROME JACOBSON INFORMED AMBASSADOR TODAY ABOUT FORTHCOMING DISCUSSIONS WITH SOVIET OFFICIALS HERE ON PRODUCTION OF SPARK PLUGS BEARING BENDIX "AUTO-LITE" TRADEMARK. BENDIX ASKS DEGREE OF EFFECTIVE PARTICIPATION IN CONSTRUCTION AND MANAGEMENT OF FACILITY WHICH APPEARS TO REPRESENT GENUINE INNOVATION FOR SOVIET ENTERPRISE AND WHICH POSES SERIOUS IDEOLOGICAL AND OPERATIONAL PROBLEMS FOR SOVIET AUTHORITIES. BENDIX WOULD AGREE TO PLACING ITS TRADEMARK ON EXPORT OF SPARK PLUGS TO HARD CURRENCY AREAS ONLY IF THE PRODUCT MEETS ITS QUALITY STANDARDS, A CONDITION ACHIEVABLE ONLY IF USSR ACQUIESCES IN SUBSTANTIAL BENDIX PARTICIPATION IN CORPORATE MANAGEMENT. JACOBSON BELIEVES PROJECT HAS ENTHUSIASTIC SUPPORT OF ARBATOV/GVISHIANI CIRCLE AND IS ACCEPTABLE TO MINISTRY OF FOREIGN TRADE AS POTENTIAL EARNER OF HARD CURRENCY, BUT HE IS NOT SURE SOVIET AUTOMOTIVE PRODUCERS ARE CONVINCED OF NEED TO MAKE SPARK PLUGS UNDER CONDITIONS ENVISIONED BY BENDIX. END SUMMARY.

2. JACOBSON, ACCOMPANIED BY BENDIX PARIS REPRESENTATIVE GEORGE LAROUNIS, CALLED ON AMBASSADOR PRIOR TO JACOBSON'S SCHEDULED MEETING TODAY WITH ANATOLIY BUTKO, CHAIRMAN OF SOVIET FOREIGN TRADE ASSOCIATION FOR IMPORT OF AUTOMOTIVE EQUIPMENT (V/O AVTOPROMIMPORT). TRIP FOLLOWED ADVICE TO JACOBSON BY SOVIET
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EMBASSY IN WASHINGTON THAT USSR READY TO DISCUSS FURTHER THIS

"PIONEER PROJECT" - IN MOSCOW. BENDIX IN FEBRUARY, 1976, PROPOSED TO PARTICIPATE IN ERECTION OF SPARK PLUG FACILITY PRODUCING 75 MILLION PLUGS ANNUALLY, TWO-THIRDS OF WHICH WOULD BE SOLD ON DOMESTIC AND EAST EUROPEAN MARKETS, WITH REMAINING 25 MILLION DESTINED FOR EXPORT TO HARD CURRENCY AREAS. ALL PLUGS WOULD BEAR BENDIX "AUTO-LITE" TRADEMARK. UNDER TERMS ENVISIONED BY BENDIX, IT WOULD ASSIST SOVIETS IN CHOICE OF EQUIPMENT AND WOULD PARTICIPATE ON CLOSE AND CONTINUING BASIS IN CONTROLLING QUALITY OF PRODUCT. BENDIX WOULD NOT BE COMMITTED TO PERMIT EXPORT OF ANY PLUGS UNDER ITS TRADEMARK TO HARD CURRENCY AREAS UNLESS THEY MET COMPANY'S OWN QUALITY STANDARDS. IN ADDITION TO SPECIALISTS, BENDIX WOULD SEND OVERALL PROJECT MANAGER TO SUPERVISE CONSTRUCTION OF FACILITY; IN AN IDEAL CASE, HE WOULD BE THE DEPUTY TO THE SOVIET PLANT MANAGER. PRESENCE OF ONE OR TWO QUALITY CONTROL TECHNICIANS WOULD CONTINUE INDEFINITELY.

3. JACOBSON EXPLAINED BENDIX INTEREST TO BE ACCESS TO INTERNAL SOVIET/EE MARKET, SINCE SALES THERE WOULD BE ON A ROYALTY BASIS. BENDIX LESS INTERESTED IN PROMOTING SOVIET HARD CURRENCY EXPORTS, ALTHOUGH IT RECOGNIZES THAT THIS ASPECT IS ESSENTIAL TO GAIN SOVIET APPROVAL. JACOBSON SAID THAT EVEN A GOOD QUALITY SPARK PLUG BEARING THE "AUTO-LITE" TRADEMARK WOULD HAVE TO BE SOLD AT A DISCOUNT BECAUSE OF THE "MADE IN USSR" LABEL. HE SAID THAT SOVIETS HAD ESTABLISHED 25 MILLION EXPORT FIGURE, BUT HE FELT THAT IT WOULD TAKE FIVE OR SIX YEARS AFTER PRODUCTION BEGAN TO REACH SUCH A LEVEL.

4. SPARK PLUG FACILITY WILL COST ABOUT \$33-34 MILLION UP TO START-UP TIME, WHICH WOULD BE SOME FIVE YEARS AFTER SIGNING OF A GENERAL AGREEMENT. ABOUT \$23 MILLION OF THIS WILL REQUIRE HARD CURRENCY EXPENDITURES BY USSR, TOWARDS WHICH BENDIX IS WILLING TO SUPPLY A \$6 OR \$8 MILLION LINE OF CREDIT. BENDIX WOULD INSIST ON A FIXED OBLIGATION TO REPAY, IRRESPECTIVE OF WHETHER PRODUCT EVENTUALLY MEETS BENDIX CRITERIA FOR PERMISSION TO USE TRADEMARK IN HARD CURRENCY EXPORTS. CREDIT WOULD BE REPAYABLE IN TEN YEARS BUT AVERAGE OUT AT SEVEN AND ONE-HALF YEARS FOR DATE OF ACTUAL DRAWING DOWN OF FUNDS.

5. JACOBSON STRESSED THAT THE BENDIX OFFER IS TAKE-IT OR LEAVE-IT. THE IDEA IS AT LEAST TWO YEARS OLD, STEMMING FROM LIMITED OFFICIAL USE

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TALKS IN MOSCOW BETWEEN BENDIX PRESIDENT MIKE BLUMENTHAL AND ARBATOV AND GVISHIANI. JACOBSON WAS INVITED TO MOSCOW LAST DECEMBER, WITH THE FEBRUARY 1976 BENDIX PROPOSAL AS A CONSEQUENCE. SOVIET OFFICIALS HAVE POINTED OUT THE SERIOUS IDEOLOGICAL AND OPERATIONAL COMPLICATIONS WHICH THE PROPOSAL CAUSES FOR THEM. THEY IMPLIED THAT AUTHORITY TO CONTINUE THE DISCUSSIONS NOW HAD BEEN APPROVED AT THE HIGHEST LEVEL BECAUSE OF THIS ASPECT. JACOBSON SAID THAT ANY GENERAL AGREEMENT

HE MIGHT MAKE WOULD HAVE TO BE FOLLOWED UP BY A TECHNICAL ONE BETWEEN EXPERTS, WHICH HE THOUGHT WOULD REQUIRE ANOTHER SIX MONTHS.

6. JACOBSON MENTIONED THAT THE SOVIET STATE COMMISSION FOR TECHNOLOGY ALSO EVINced INTEREST IN BENDIX FOUL-WEATHER NAVIGATIONAL AIDS FOR AIRCRAFT, ON AND OFF FIELD, TO REPLACE STRAIGHT-LINE NAVIGATIONAL SYSTEM CURRENTLY IN USE. HE THOUGHT SOVIETS ARE SEVEN YEARS BEHIND US IN THIS AREA. OTHER FIELDS OF DISCUSSION HAVE BEEN FRICTION MATERIALS AND BREAKING SYSTEMS, WHICH PROVIDE TWICE THE LIFE OF SOVIET PRODUCTS, AND THE BENDIX HIGHLY SOPHISTICATED NUMBER FIVE MACHINE TOOL SYSTEM. THE SOVIETS WOULD LIKE TO HAVE THESE NUMERICAL CONTROLS ON THEIR MACHINE TOOLS. RECENTLY THE SOVIETS HAVE BEEN SILENT ON ALL OF THESE POTENTIAL AREAS OF BUSINESS NEGOTIATION, AND ONLY THE SPARK PLUG FACILITY IS UNDER DISCUSSION AT PRESENT. JACOBSON SAID THAT BENDIX'S ONLY SUCCESSFUL SALE TO DATE HAS BEEN A LICENSE FOR THE STARTER-DRIVE ON HEAVY TRUCKS. HE AND LAROUNIS, WHO NEGOTIATED THIS CONTRACT, BOTH COMMENTED ON THE HIGH COST OF TRYING TO DO BUSINESS WITH THE SOVIETS.

7. AMBASSADOR PROVIDED JACOBSON WITH A RUNDOWN ON CURRENT STATE OF US-SOVIET BUSINESS RELATIONS, WHICH ARE IN HOLDING PATTERN, AND POINTED OUT THAT DEVELOPMENT OF INDUSTRIES KEYED TO THE AUTOMOTIVE IS AN AREA WHERE SOVIET NEEDS ARE PARTICULARLY CLEAR. SOVIETS ARE CURRENTLY PUTTING HEAVY STRESS ON NEED FOR QUALITY CONTROL. E/C COUNSELOR PARTICIPATED IN THIS TALK AND ALSO TOOK BENDIX REPRESENTATIVES TO SEE COMMERCIAL OFFICE DIRECTOR. LAROUNIS NOTED THAT BENDIX MIGHT WISH TO USE THESE FACILITIES FOR EXHIBITS OR MEETINGS.

8. COMMENT: WHILE WE MAY BE BETTER ABLE TO ASSESS PROSPECTS LIMITED OFFICIAL USE

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FOR THIS PROJECT WHEN JACOBSON BRIEFS US FRIDAY ON THE RESULTS OF HIS MEETINGS HERE, FACT THAT SOVIETS INVITED HIM HERE TO DISCUSS A HIGHLY UNORTHODOX BUSINESS PROPOSITION SUGGESTS THAT SOVIET INTEREST IN IMPROVING QUALITY OF PRODUCTION IS SUBSTANTIAL AND MAY TEMPT THEM TO CONSIDER ARRANGEMENTS WHICH HERETOFORE HAVE BEEN UNACCEPTABLE. SHOULD BENDIX SUCCEED IN REACHING AN AGREEMENT LIMITING USE OF ITS TRADEMARK ON HARD CURRENCY EXPORTS OF THE SOVIET PRODUCT TO THOSE OF A QUALITY FOUND ACCEPTABLE BY BENDIX ITSELF, SOVIETS WILL HAVE OWN INTEREST IN LETTING BENDIX SPECIALISTS MEASURE QUALITY CONTROL. WHETHER SUCH AN INTEREST WOULD PREVAIL OVER TRADITIONAL CONCERNS ABOUT FOREIGN INVOLVEMENT IN MANAGEMENT OF SOVIET ENTERPRISE IS ANOTHER QUESTION.

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